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• Business in Brief

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THE CHASE NATIONAL BANK
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The economy is coping vigorously with the current mild business adjustment. Businessmen are rising to the sales challenge posed by stiffening competition. Consumer buying is still active. And government policies are designed to speed the shift to a soundly-based prosperity.

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The record to date shows only a moderate easing from the extraordinary levels reached last year:

- Industrial production in December was off 6% from its mid-year peak. That's a smaller drop than in the first 6 months of the 1949 downturn. Most of the decline reflects the orderly working off of inventories.
- Unemployment has risen, but it is still about 2 million. In contrast, total personal income is running ahead of a year ago.

That the adjustment is going relatively well is due to strength in the dynamic areas of the economy:

- Business investment in new plants and equipment is off only 3% from the peak quarter last year.
- Retail sales during the Christmas season ran only 2% below the all-time record set in 1952.
- Defense production is still at a $50 billion annual rate—and cutbacks are scheduled to be moderate.

Will business continue to take the readjustments in stride? Trends as they shape up for major segments of the economy give good reason to believe it will.

The rise in inventories halted late last year. Stocks were worked off at an estimated $3-4 billion annual rate in the fourth quarter. However, stocks are still high in relation to sales, especially in durable goods. So further cuts in inventories seem in the cards.

In the vital area of capital investment, surveys of business plans point to a drop of 4-6% for the year as a whole. The cut in corporate income taxes should help maintain business investment.

Consumer incomes are also gaining a lift from the cut in taxes. The cut should add $3 billion to post-tax income (but social security taxes will rise $600 million).

Soft goods sales are running below their past relationship to income. Hard goods sales have been about in line with income. And the savings rate seems somewhat large by past standards. All of this favors a continued high level of consumer buying.

The cutback in defense spending will be spread throughout the year. Current plans call for a reduction of about $5 billion in the annual rate by year-end.

The construction outlook is favorable. Housing and industrial building may decline moderately. But commercial building and public works are on the rise.

The key business indicators selected by the National Bureau of Economic Research as the most reliable still point to no more than a moderate downturn. (See **Business In Brief,** November 1953). The average trend of the indicators has not as yet crossed the minus-three-months critical point.

To sum up: the major economic trends now visible point to a continued mild readjustment. It will continue because some key items are easing. It promises to be mild because no more than slight declines seem in prospect for any of the major economic sectors.

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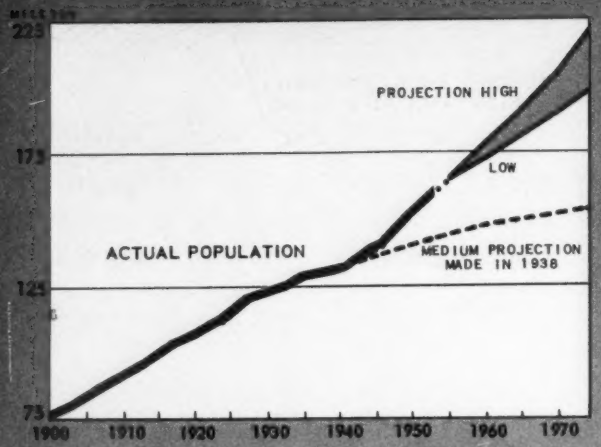
The case for optimism on the business outlook for 1954 is reinforced by strong growth trends in fundamental factors affecting our economy. The remainder of this report will look at some of these basic factors. Here, in brief, are a few main conclusions:

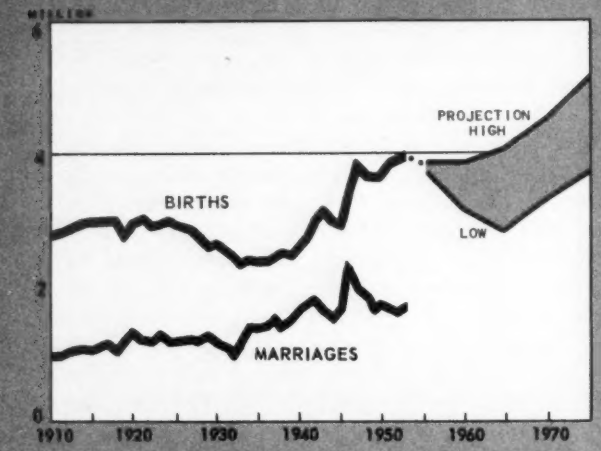
- **The amazing post-war population upsurge** is still running on.
- **The phenomenal growth in income** and the equally striking shifts in its distribution have created a vast new middle-income market.
- **The current volume of construction** is below its past relationship to population and national income.
- **Business investment in new equipment**—while high—doesn't seem excessive relative to today's needs.
- **In addition to these growth trends, government** is in a far better position to help combat a business downturn than in the past.

These developments underline the increased resiliency of the U.S. economy. They help explain the growing confidence that business can weather the current readjustment period in fine fettle and move on into a new period of economic expansion.

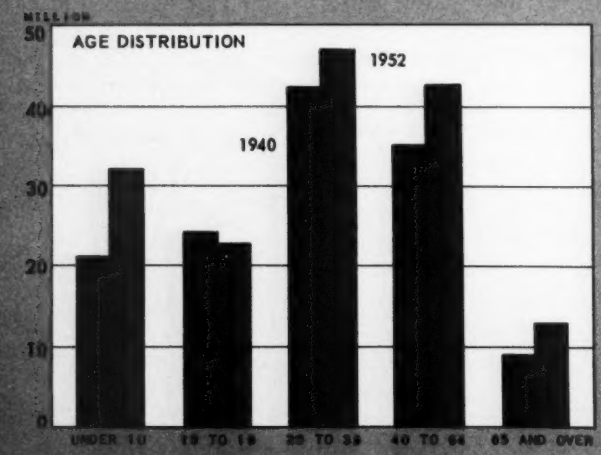
THE PHENOMENAL POST-WAR RISE IN POPULATION



BIRTHS SET RECORD DESPITE DROP IN MARRIAGES



MORE YOUNG PEOPLE—AND MORE OLD PEOPLE



DATA: CENSUS BUREAU

TRENDS IN POPULATION

The U. S. market is both broader and deeper than it was a quarter-century ago. Look at these trends:

- Population is up 20 million in the past decade, as compared with a growth of 8 million in the 1930's.
- Real income per person measured in dollars of constant purchasing power is almost 50% greater than in the late 1920's and is up 12% since 1947.
- Real income is more broadly distributed than ever before—58% of today's family units have incomes of $3,000 to $10,000 as against 29% a quarter century ago (again in dollars of constant purchasing power).

All this has great significance for our economy. It means more customers, each with more buying power. It means a continuing need for more housing and other products. And it means more factories and equipment will be needed to meet these expanding demands.

The post-war population upsurge marks a dramatic reversal of earlier trends. The birth rate had dropped steadily—from 30 per 1,000 before World War I to less than 19 at the bottom of the depression. The absolute growth in population during the 1930's was less than half that in the preceding decade.

The slowdown in population growth inspired a vast body of gloomy literature about the difficulty of maintaining prosperity. Forecasts pointed to a maximum U.S. population of 160 million in 1980.

Post-War Population Boom

However, the post-war period witnessed a sharp increase in marriages and births. Marriages hit a peak—at more than 2 million—in 1946, and then dropped to about 1.6 million a year. Births rose, too. The birth rate hit 27 per 1,000 in 1947 and has not been lower than 23 since. Total births reached a record 4 million, despite the drop in marriages after 1946. The reason: more second, third, and even fourth births per family.

In all, 33 million babies were born in the nine years 1945-53. That compares with 24 million in the entire decade of the 1930's.

The 33 million post-war babies constitute a bulge in the population that will have its impacts on markets for years to come. Right now, producers of baby food, clothing and other products are feeling its effects. Soon teen-age markets will be expanding greatly.

In the 1960's there will be a bulge in demand for durable goods. The number of women of marriageable age will start rising in the late 1950's. By the late 1960's it will be one-third greater than in 1949. With marriages rising the market for houses, autos, and other durable goods should turn up sharply.

At the same time, another big increase in births should occur. Barring war or depression, births may reach 5 million a year in the 1970's.

N AND PURCHASING POWER

While population forecasts are hazardous, the best evidence now available points to the continued rapid expansion of U. S. population. The 200 million mark may be passed before 1975. That could happen even though marriages and births decline from recent levels.

Actually, some decline in both marriages and births seems to be in store during the next few years. Because of the low level of births during the 1930's, the number of women of marriageable age is about 10% below that in 1946. Moreover, post-war births were inflated by those postponed from the depression and wartime.

However, no more than a moderate decline in the rate of population growth is in sight. Marriages may drop 10%. And births may decline to 3.5 million.

A Growing Middle-Income Market

The dramatic about-face in population trends accounts for only part of the striking expansion of the U. S. market. *The growth in real income—and the massive shifts in its distribution—have created a vast new middle-income market.*

To see the extent of the growth in markets, look first at the 1929 income pattern (figures show cash income after taxes in 1953 dollars):

- Two-thirds of all family units earned less than $3,000 (in today's prices) per year. This group received about one-third of total cash income.
- Thus, the market for most major durable goods and other conveniences was largely dependent on the 12 million families earning $3,000 or more.

Now look at the major features of today's income pattern (again cash income after taxes in 1953 dollars):

- Almost two-thirds of all family units earn more than $3,000 a year. There are 32 million families in this group and they get almost 90% of total income.
- Moreover, the $4,000 to $7,500 group now contains 18 million families or 35% of the total. This group now gets 42% of all income. It has more than trebled since 1929 in both numbers and purchasing power.

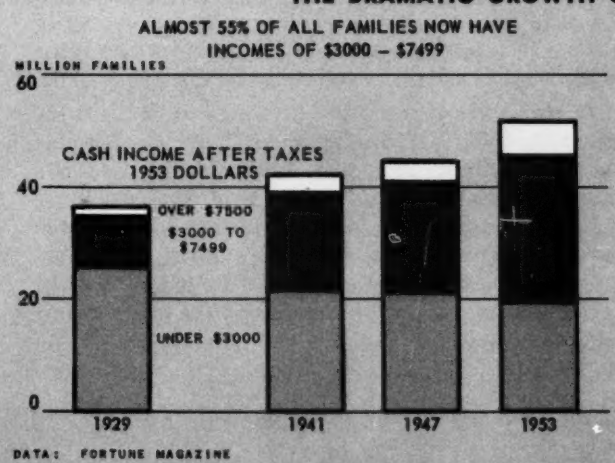
In short, the growing productivity of the U.S. economy has been broadly shared. The increase in the purchasing power of wages and salaries made possible by economic growth has been by far the leading factor in this shift in income patterns.

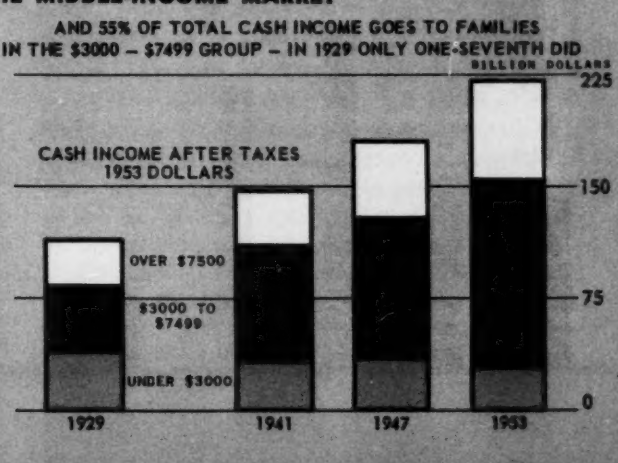
These basic trends in population and purchasing power offer a major new opportunity to business. An expanding population with rising purchasing power adds to the basic demand for housing and other construction, for food and clothing, for electric power, for automobiles, for industrial equipment—in fact, for almost everything.

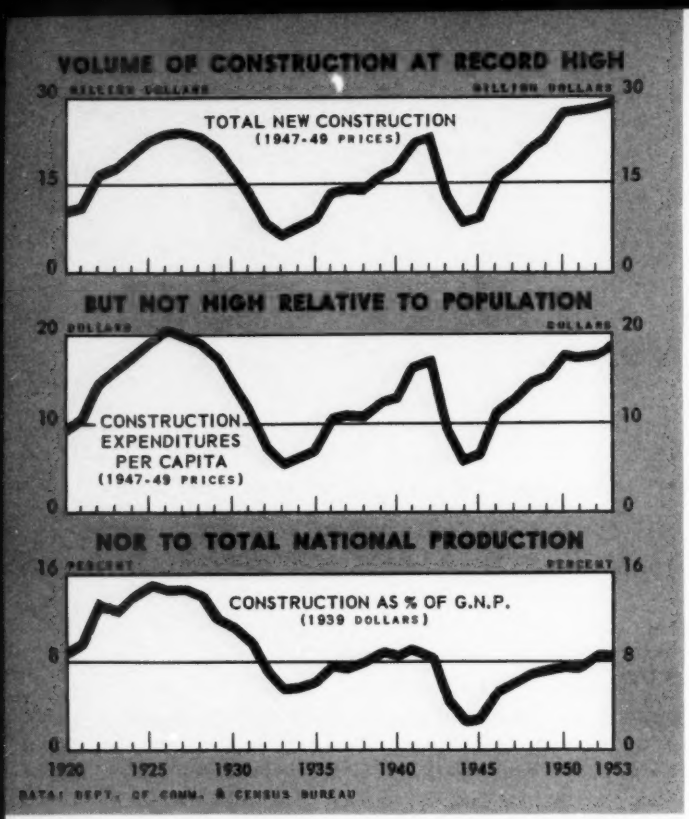
The tremendous growth of the middle-income market creates a bigger demand for autos, homes and new appliances. It underlies the boom in recreation and travel. It means a growing demand for higher-quality goods. And it plays an important part in the population upsurge—middle-income families are having more babies.

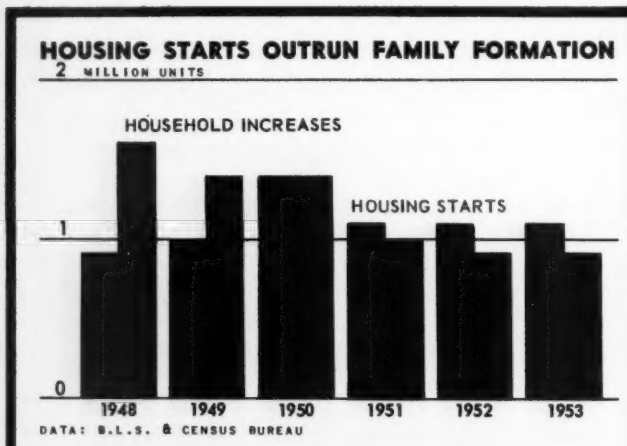
Impressive though these changes are, they are no guarantee of high and rising sales. Rather, they offer a major sales challenge to American business.

THE DRAMATIC GROWTH OF THE MIDDLE-INCOME MARKET






VOLUME OF CONSTRUCTION AT RECORD HIGH
TOTAL NEW CONSTRUCTION
(1947-49 PRICES)
BUT NOT HIGH RELATIVE TO POPULATION
CONSTRUCTION EXPENDITURES PER CAPITA
(1947-49 PRICES)
NOR TO TOTAL NATIONAL PRODUCTION
CONSTRUCTION AS % OF G.N.P.
(1939 DOLLARS)
1920 1925 1930 1935 1940 1945 1950 1953
DATA: DEPT. OF COMM. & CENSUS BUREAU



The post-war housing shortage has been history for some time. Yet housing starts have continued to outrun family formation—last year saw almost 950,000 new households formed and 1.1 million new houses started. Biggest reasons: the move to the suburbs, and the demand for better housing.

Household formation is expected to drop to around 800,000 in 1955. So housing demand will be increasingly dependent on the continued exodus from the cities and the desire for bigger and better homes. Many of the early post-war houses are too small for today's families. And, with incomes high and broadly distributed, many families can afford better housing.

LONG TERM TRENDS

Construction, in total and by principal lines, is still below its past relationship to population and total national output. This is in marked contrast to the late 1920's—signs of over-building began to show up after 1925 in most lines.

In the 1930's construction activity dropped deeper, and stayed depressed longer, than did most industries. World War II forced postponement of all but the most essential projects. And materials and manpower shortages plagued builders in much of the post-war period.

The total value of public and private construction put in place topped $34 billion last year. If you adjust for rising prices, the actual volume of activity was 26% above the mid-1920's.

However, population and gross national product (in constant dollars) have grown faster. So construction is low in relation to the size of today's economy.

What's more, there is a huge backlog of needs for stores, office buildings, schools, highways, hospitals and waterworks. Experts estimate that this backlog adds up to well over $50 billion.

Lag in Commercial Building

New stores and restaurants went up at a rate of a billion dollars last year. However, store outlays ran to only 9% of the value of new residential construction. The general rule in past periods of high activity was that each dollar of homebuilding went hand in hand with 14¢ worth of store and restaurant building.

The move to the suburbs plus the spread of new retailing methods should boost demand for store construction. Large suburban shopping centers are springing up from coast to coast. Many of the new stores—particularly food supermarkets—are costlier to build than prewar stores.

Needed: Office Space

There's a nation-wide shortage of office space. Vacancies in most cities range from 2% down. Realtors used to think a 10% vacancy rate was satisfactory.

Yet there's nothing resembling a boom in office building construction. Last year's total volume was 10% below the average of the 1920's. Meantime, clerical worker employment—a basic element in the demand for office space—has grown sharply. It's up more than 50% since 1940.

Expenditures for modernizing existing office buildings are on the rise. One big reason: air conditioning. In some cases, the cost of air conditioning a building constructed in the 1920's may exceed its original cost.

There are backlogs of demand for other types of commercial construction, too. Building of recreational facilities (bowling alleys and amusement centers) has been falling behind the growth in population and income. Construction of new churches still hasn't made up for the low level of building during depression and wartime.

OS IN CONSTRUCTION

The nation's school facilities fall far short of needs. Three out of every five classrooms are over-crowded. One in every five pupils goes to a school that fails to meet minimum fire and safety standards.

School Enrollments Soar

The bumper post-war crop of babies sent school enrollments soaring. They're up over 20% since the war. Last year's record level of school building added about 50,000 new classrooms. But school authorities say we're 345,000 classrooms short in public schools alone.

The end of the growth in enrollments is not yet in sight. Births averaged 3.8 million a year in the five years 1949-53. None of these 19 million babies has yet started school. So elementary school enrollments will continue to soar. In the early 1960's the wave will hit the high schools, and later the colleges.

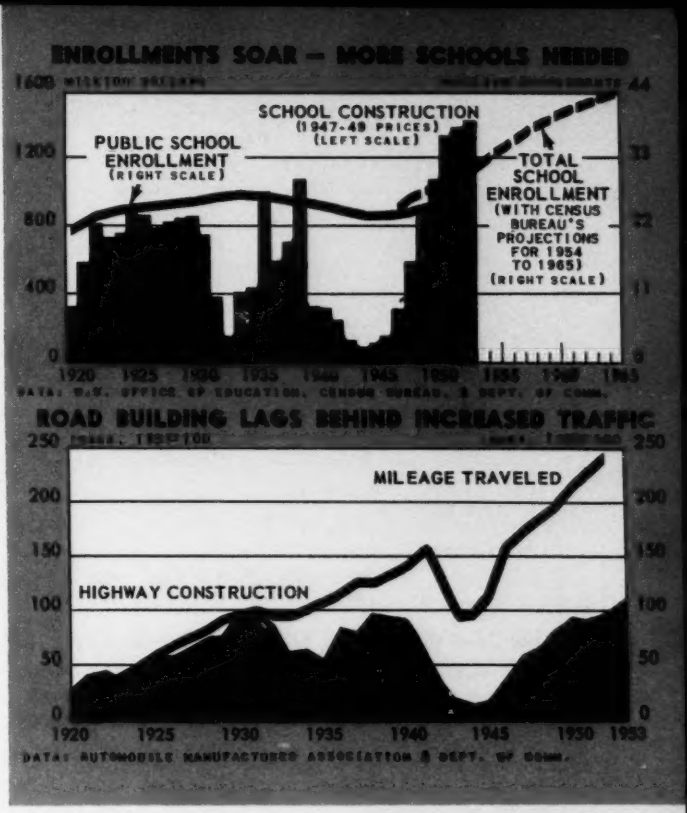
Keeping pace with this growth will require 425,000 new classrooms by 1960, according to the U. S. Office of Education. The cost: around $18 billion. To hit this mark would require annual outlays of $3 billion. In contrast, last year's figure was $2.4 billion.

The backlog of highway demand tops even that for schools. Best estimates are that we should invest $50-60 billion in the next decade to bring the nation's 3.3 million miles of roads up to adequate standards. Last year's total expenditures: $3.2 billion.

Crowded Highways

The physical volume of road building is little higher than in the early 1930's. Meantime, the number of cars, trucks and buses has about doubled—and total miles traveled are up better than 250%.

Today's heavier and faster traffic calls for sturdier 4 or 6-lane construction on most through routes. In short, we face the massive task of rebuilding a major part of our road system.

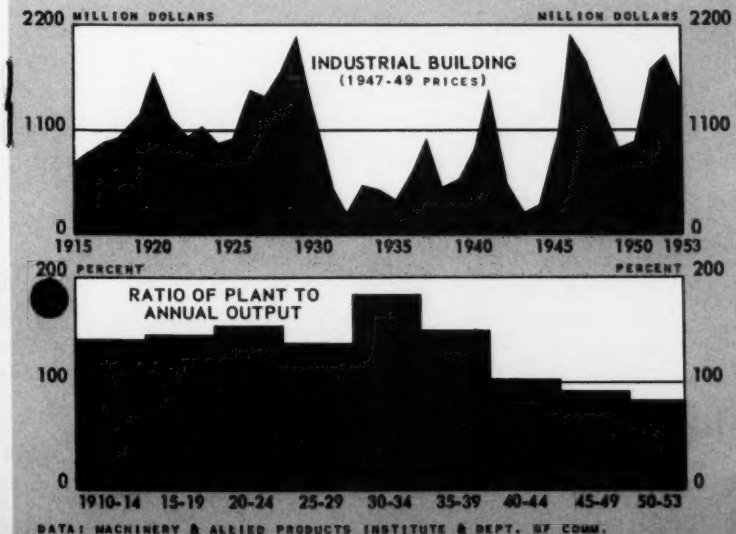


Needs For Other Public Works

Other public works have failed to keep pace with the growth of the economy. The growth of the suburbs created a large backlog of sewer and water projects. Yet, last year's construction volume was only about 12% greater than in the mid-1920's.

The amount of hospital construction per person added to the population is running 19% below the 1920-41 average. The Public Health Service estimates that we will need to add 880,000 new hospital beds in the next 10 years. Last year we spent $347 million on hospitals, added about 21,700 new beds.

INDUSTRIAL CONSTRUCTION BELOW PAST RELATIONSHIPS TO POPULATION AND PRODUCTION

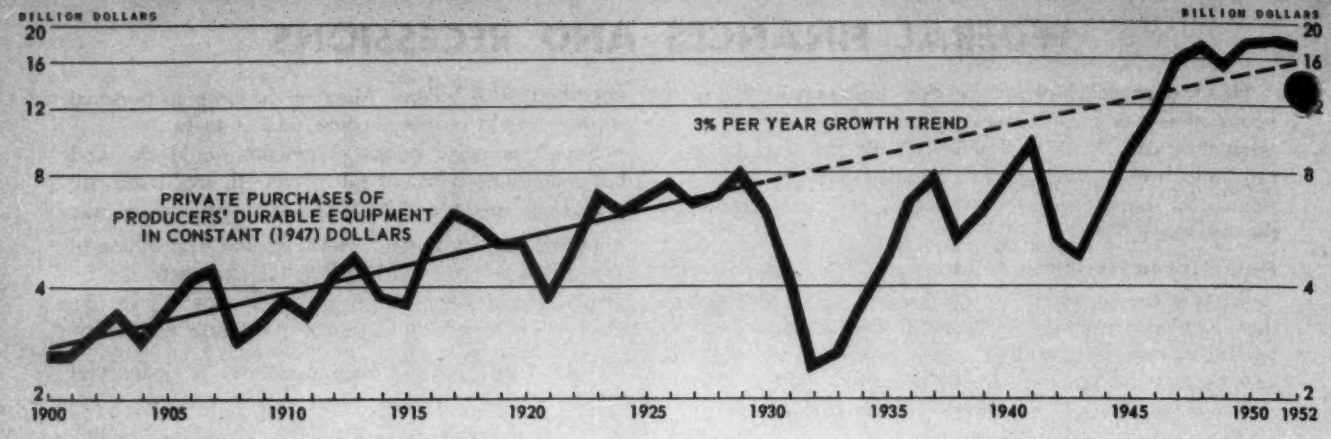


The striking fact about industrial construction is its low growth rate. Industrial production is almost 2½ times its volume during the mid-1920's. Yet the physical volume of industrial building is only about 7% higher.

Industry is now turning out almost two-thirds more production per dollar invested in buildings. In the mid-1920's the value of plant was 1⅛ times annual output. Now the ratio of plant to output is 90%.

That trend is due, in part, to the increasing efficiency of plant utilization. But it may also reflect a deferred need for plant construction. We may need to step up the pace of industrial building to meet the demands of our growing population.

BUSINESS INVESTMENT IN NEW EQUIPMENT SHOWS STRONG GROWTH TREND AND MARKED UPS AND DOWNS



DATA: DEPT. OF COMMERCE

TRENDS IN EQUIPMENT INVESTMENT

How does the current level of business investment in new equipment line up against past trends? In the present state of our knowledge about the economy that's a difficult question to answer with any precision. In relation to its crucial importance less is known about factors affecting business investment than about other economic phenomena.

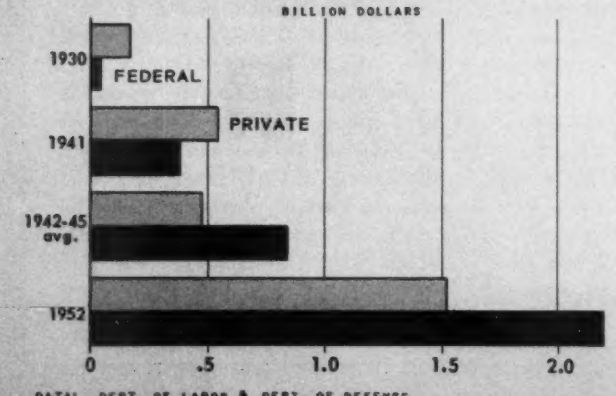
Yet it is obviously essential to make some judgment about the present status of the business equipment market. Business investment in new equipment has been one of the most volatile elements in our economy in the past. It dropped from $8 billion in 1929 to $2.5 billion in 1933 (constant dollars), or almost 70%.

What Is "Normal"?

A widely-held belief is that we have been in the midst of a catching-up boom in business equipment. That implies that recent investment has been well above normal —and that investment will drop sharply once the backlog has been made up.

The problem is to decide what is a "normal" level. Because of the violent swings in business investment in the past 25 years, there's no easy way to define what a "normal" level should be.

HOW EXPENDITURES ON INDUSTRIAL RESEARCH HAVE GROWN



DATA: DEPT. OF LABOR & DEPT. OF DEFENSE

One procedure that has been used is to extend the trend of the decades prior to 1930. This is, at best, a hazardous statistical undertaking, for economic trends can seldom be usefully extended that far beyond the last point of reference. But, because this method is frequently employed in economic literature, it's important to see what it shows:

Equipment purchases followed a 3% per year growth trend in the 1900-1930 period. They dropped below the trend in depression and war-time. Last year they were almost 20% above the level indicated by an extension of the 3% per year growth trend.

Does this provide convincing evidence that the recent level of equipment purchases has been out of line with our needs? Certainly not, for there is growing evidence that the need for equipment today is greater than in the past.

A number of factors underlie today's relatively greater need for equipment. Large equipment-using industries like petroleum, chemicals and electric power have grown in importance. Rising wage rates provide a powerful stimulus to mechanization. As a result, business has been substituting investment in equipment for investment in new plants.

More Research

Industrial research is another—and even more potent—factor pointing to higher investment in industrial equipment. Expenditures for industrial research have multiplied from $100 million twenty years ago to $1½ billion today.

The tremendous expansion of research may constitute one of the strongest pillars supporting the economy. Research is accelerating the tempo of change in final products and the equipment used in making them.

For continued growth, the U. S. economy needs a steady flow of new and better products. Such a flow will insure active markets for consumer and capital goods. Thus, research can make a major contribution to the nation's future prosperity.

FEDERAL FINANCES AND RECESSIONS

How depression-proof is our economy? Some economists say it possesses an impressive degree of what they call "built-in flexibility". By this they mean that any drop in business will automatically set in motion forces that will bolster purchasing power and check the downturn.

How Built-In Flexibility Arises

What is the source of this factor? It arises from the increased weight of government in the economy, and from the nature of our tax system.

Both matters are the subject of much debate. Yet they are, at present, established facts. It is important to analyze their implications for the business cycle. Such analysis does not involve passing judgment on the wisdom of either.

Under our present system of government finance, tax payments will drop automatically if business activity turns down. At the same time, government spending will show little change. *As a result, government—rather than business and individuals—will absorb a good part of the drop in income.*

Assume, for purely illustrative purposes, that gross national product dropped $15 billion (about 4%). Such a drop would result if any combination of business investment, consumer purchases or government expenditures declined by that amount.

In the absence of built-in flexibility, such a drop would involve a cut in incomes of $15 billion. This would lead to a further cut in purchases. And the downward spiral would be underway.

But, under today's conditions, the drop in private incomes would be less than $15 billion. Here is how it would work out:

- **Federal corporate income tax** liabilities would drop about $3.75 billion. Past experience suggests that pre-tax earnings would decline by about half the total drop in national production. But post-tax earnings would drop only half as much.
- **Federal personal income** tax liabilities would be cut about $1.5 billion. Most of the drop in personal income would reduce income subject to tax.
- **Social security** benefit payments would rise and tax contributions would fall. Over-all, social security operations might add $1.5 billion to private income.
- **Other factors** might offset a further $1.5 billion of the business drop. Other Federal and state tax receipts would fall. But expenditures for things like farm price support and public assistance would rise.

To sum up: These rough estimates indicate that built-in flexibility would offset almost 60% of a potential $15 billion drop in gross national product. Many economists contend this would check the downward spiral before it reached serious proportions.

These shock-absorbing effects will be re-inforced this year by the January 1st tax reductions. They will reduce this year's personal and corporate tax liabilities by roughly $4.5 billion or by more than expenditures.

If you add up all these shock-absorbing effects, you find that they might absorb a major fraction of a potential drop in gross national product.

The Role of Psychology

Does this mean we can stop worrying about recessions? The short answer is: Definitely Not. Built-in flexibility doesn't deal with the root-causes of recessions —it is, at best, a palliative.

Built-in flexibility would cushion any drop in private purchasing power. And the federal government could, in theory, re-inforce the cushioning effect in impressive fashion by further tax cuts.

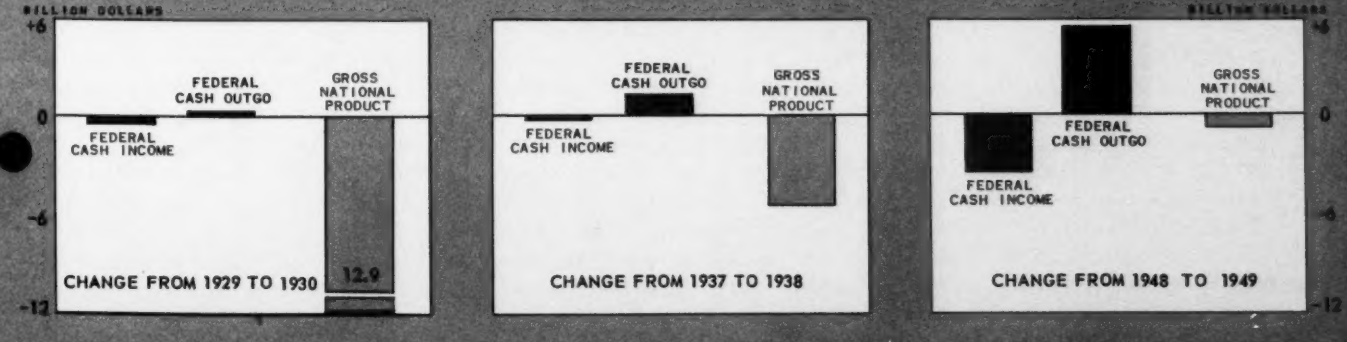
However, the crucial question is how people would react to a recession and a rising government deficit. One of the lessons of the 1930's is that, while the government can pump out purchasing power, actual public spending may not increase dollar for dollar.

Thus, it's impossible to calculate how effective built-in flexibility would be. However, it weighs in as an important factor in any judgment of future business trends.

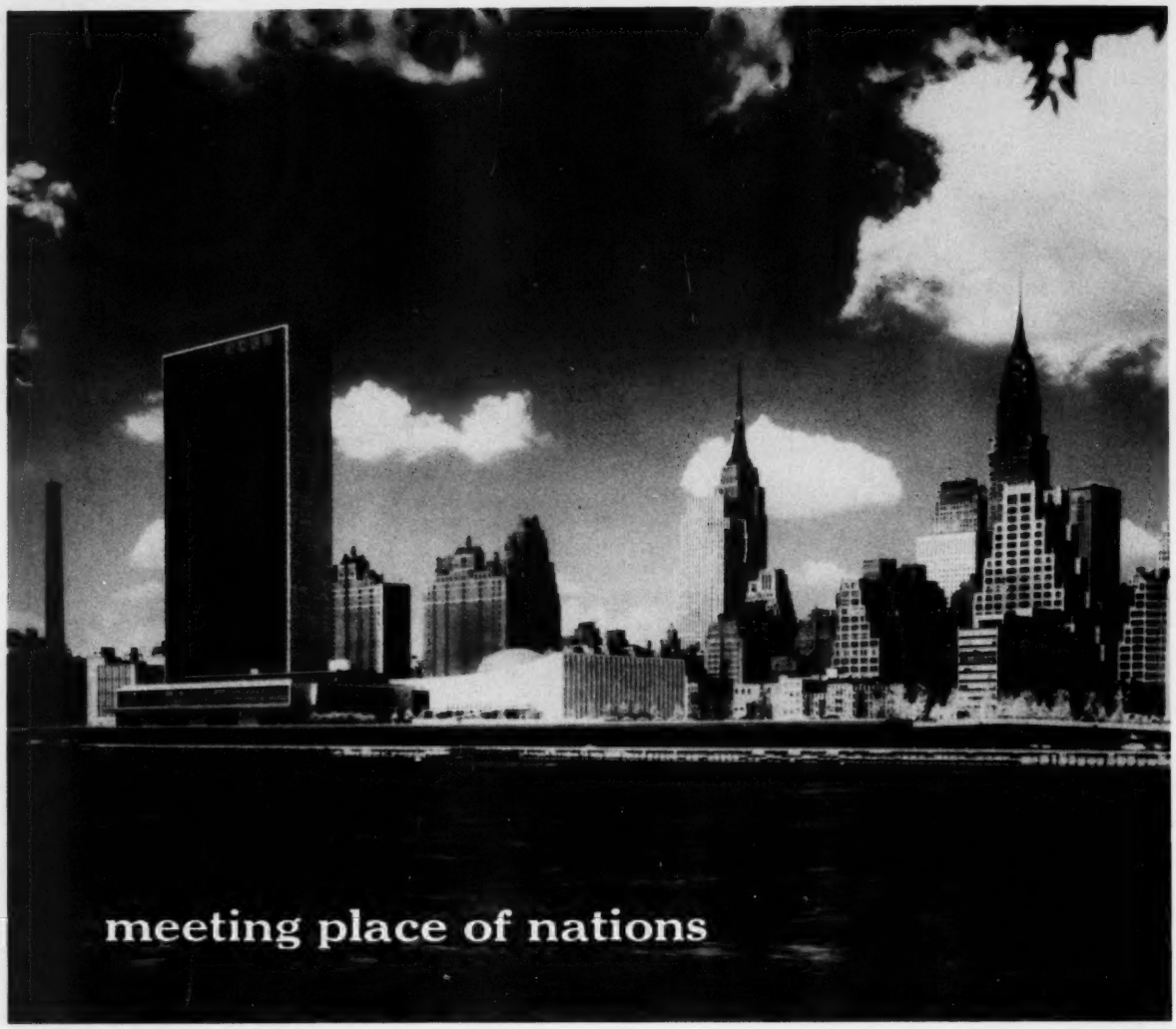
CHANGES IN FEDERAL CASH INCOME AND OUTGO IN PAST RECESSIONS

IN 1929-30 AND 1937-38 CHANGES IN FEDERAL FINANCES WERE SMALL RELATIVE TO THE DROP IN BUSINESS

BUT IN 1948-49 THEY ADDED SUBSTANTIALLY TO PRIVATE PURCHASING POWER



DATA: TREASURY DEPT.



In 1947 the chief U. S. delegate to the United Nations asked of his fellow delegates:

"Where will we find a place where railroads and wonderful highways and a great river all come together to bear the burden of humanity and of goods *and of communications . . .?"*

That place for the United Nations' headquarters was found in New York.

No city is more truly a meeting place for exchanging the goods of the world. Through the Port of New York flows about half of the $25 billion or more in cargoes that makes up America's foreign trade. Out go machine tools and farm implements . . . flour and fertilizer . . . bulldozers and bicycles . . . shoes and steel and petroleum and a thousand other items.

In come olives from Greece, woolens from Britain, cameras from Germany, cheeses from Switzerland, and many other products from many other countries—making overseas trade truly a two-way street.

The Chase knows this story of two-way trade; has helped to write many a chapter. In Greater New York alone, you'll find 29 Chase offices engaged in financing overseas trade . . . one in the very shadow of the U. N. Secretariat Building. Within the United States, the Chase has the largest correspondent system of any American bank. Abroad you'll find Chase branches and representatives' offices in Europe, Latin America, the Far East—and in market places around the globe Chase maintains close working relationships with leading banks.

If you have a foreign trade problem, why don't you talk to the people at Chase?

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